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Electronic Data Processing

A Tax Preparation Package—Software 1040

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Computerized tax preparation is much faster and usually more accurate than manual preparation. Thus accounting firms with large numbers of returns to prepare have long used computer facilities. Some have turned to tax services. In this approach the accounting firm supplies the client data, the service (which owns and operates the computer) processes the data and returns the completed forms to the accounting firm.

If the firm has a large enough number of clients it might be considerably more economical to install in-house computer facilities. In-house processing substantially decreases turnaround time, and eliminates the cost of considerable fees. To process returns in-house, the accounting firms must acquire computer hardware and software. When appropriate software is commercially available, it is frequently cheaper to buy it than to develop it in-house.

The preceding EDP column discussed the process of choosing a general software package. As an illustration of how one of these packages actually functions, this column will discuss a particular tax package—"Software 1040."¹ "Software 1040" was

chosen because it is a four-time winner of the Datapro Award. This award results from an annual survey of proprietary software packages conducted by Datapro in cooperation with Computerworld and with the assistance of McGraw Hill research. There is no intention to recommend this package over other tax packages, but rather to use it as an illustration of a typical tax software package.

Description of the Package

"System 1040" is a system of computer programs designed for accounting firms that prepare individual income tax returns utilizing in-house computer systems. The package consists of a series of programs that edit tax data recorded by the accountant, calculates the 1040 and supporting schedules, and prints the returns. Programs are also available, which may be purchased optionally, to prepare state returns.

The typical sequence of activities in the preparation of a return using "Software 1040" is as follows:

1. The accountant interviews the taxpayer to obtain pertinent data.
2. The accountant records the tax data on a series of preprinted

input forms, which are designed in columnar form for ease of use.

3. A computer operator enters the data on the computer keyboard, using the input forms recorded by the accountant.
4. The computer performs a series of edit checks for accuracy and possible omissions of data. After the data is verified, all necessary calculations are performed, automatically making optimum tax selections.
5. The returns are printed on preprinted forms. Other output includes a filing instruction letter, a printed mailing label for the client, and an itemized list of forms prepared for billing purposes.

Appendix A contains an example of input forms.

System Availability

"Software 1040" has been developed for use on IBM System/32, IBM System/34, IBM System/36, IBM System/38, and the IBM PC-XT. The following forms and schedules are available:

*Form 1040	U.S. Individual Income Tax Return
*Schedule A	Itemized Deductions
*Schedule B	Interest and Dividend Income
*Schedule C	Profit (or Loss) From Business or Profession
*Schedule D	Capital Gains and Losses
*Schedule E	Supplemental Income Schedule
*Schedule F	Farm Income and Expenses
*Schedule G	Income Averaging
*Schedule R	Credit for the Elderly and the Permanently and Totally Disabled
*Schedule SE	Computation of Social Security Self-Employment Tax
*Schedule W	Deduction for Married Couple When Both Work
*Form 1040ES	Estimated Tax for Individuals
Form 1116	Computation of Foreign Tax Credit
Form 2106	Employee Business Expenses
Form 2119	Sale or Exchange of Principal Residence
*Form 2210	Underpayment of Estimated Tax by Individuals
Form 2441	Credit for Child and Dependent Care Expenses
Form 3468	Computation of Investment Credit
*Form 3800	General Business Tax Credit
Form 3903	Moving Expense Adjustment
Form 4136	Computation of Credit for Federal Tax on Special Fuels

Form 4255	Recapture of Investment Credit
*Form 4562	Depreciation and Amortization
Form 4684	Casualties and Thefts
Form 4797	Supplemental Schedule of Gains and Losses
Form 4798	Carryover of Pre-1970 Capital Losses
Form 4835	Farm Rental Income and Expenses
*Form 4868	Application for Automatic Extension of Time to File U.S. Individual Income Tax Return
Form 4952	Investment Interest Expense Deduction
Form 4972	Special 10-year Averaging Method
Form 5695	Residential Energy Credit
Form 6249	Computation of Overpaid Windfall Profit Tax
*Form 6251	Alternative Minimum Tax Computation
Form 6252	Computation of Installment Sale Income Oil and Gas Income and Expense Computation (Depletion)

The asterisk denotes forms which are provided in the basic package; the other forms are optional modules. If the "Software 1040" package ordered by your firm does not contain a particular form, it must be prepared manually.

Supplemental programs are available for preparation of state returns. Separate state instructions are supplied for each state module ordered. Whenever possible, the same input information is used for both the Federal 1040 return and for the state return; in other cases additional coding for state purposes is required. At present integrated forms are available for 41 states and the system is in use in 47 states.

There are several other integrated software packages which can be purchased to use in conjunction with "Software 1040." These are:

Firstforma—a program to capture prior year's tax information for any client not in the system for the previous year, in a form compatible to the files produced by "Software 1040," thus simplifying both accountant and data processing usage.

Tax Organizer—a program to provide clients with information from "Software 1040" files from the previous year to simplify their task of gathering current year tax information.

Proforma—a program to produce input forms which retain tax data from

the previous year, eliminating the need for re-entry of that data, and providing automatic "audit trail" for quick and easy year-to-year comparisons by professional staff.

Plan 1040—a tax planning system which lets accountants quickly and easily run through every possible tax strategy and variation for a given taxpayer, providing a printed summary for use in selecting the best tax strategy.

Info 1040—a program which lets accountants capitalize on the data base generated by "Software 1040" providing informative management reports that can be transformed into personalized letters offering clients additional services.

System Files

"Software 1040" stores taxpayer information in five different files: TXPRIOR, TXVERIFY, TXEDIT, TXHOLD, TXHISTRY.

TXPRIOR is the file in which the prior year's taxpayer data is stored. This information is eventually updated with the taxpayers current year's data.

When all of the current information about a taxpayer has been entered, the data is transferred to the TXVERIFY file. TXVERIFY is the file in which the taxpayer's data resides until the information goes through the Verification Process (if your organization has chosen to do Key Verification). Verification is a rekeying process. After a taxpayer's information has been verified, it is transferred to the TXEDIT file.

After the data has been edited, data for taxpayers who have not been approved for further processing will be stored in TXHOLD. The taxpayer data remains in the TXHOLD file until the necessary corrections are made. Taxpayers data approved for processing are passed to the return processing phase, and after the returns are completed the data is stored in the TXHISTRY file. This file is accumulated for all taxpayers processed during the tax season.

TXHISTRY is used for the printing of PROFORMA (last year's taxpayer data printed on next year's input sheets) and will then become next year's TXPRIOR file. If any tax returns need to be rerun, for one reason or another during the tax season, the data for those taxpayers will be retrieved from the TXHISTRY file, for reprocessing.

Summary

Purchase of a software package such as "Software 1040" allows an accounting firm to utilize the speed and power of an in-house computer system. The accounting staff need not develop extensive data processing skill in order to use the computer effectively. Instead the purchased package acts as an interface between the accounting professional who captures and reviews the data, and the processing system which provides the actual storage and high speed manipulation of the data. Instead of spending extended periods of time acquiring technical data processing skills and developing tax processing programs, accounting firms can buy a prewritten software package and then communicate with that package. The training required to become acquainted with the package is relatively short and thus inexpensive.

As mentioned earlier, the use of "Software 1040" as an example of a tax package is not intended to be an endorsement. Instead it is intended as an illustration of a "typical" tax package which can be used for computerized preparation of tax returns. Ω

NOTES

¹"Software 1040" is marketed by 1040 Software Inc., 10 Nevada Drive, P.O. Box 1010; New Hyde Park, N.Y. 11042.



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MASTER DATA

NAME		1		9		10		11		
S.S. #						0		1		
SOFTWARE 1040®										
FORMAT 2	FIRST NAME - TAXPAYER	12						23		
	FIRST NAME - SPOUSE	27							39	
FORMAT 3	LAST NAME	40						54		
	OCCUPATION - TAXPAYER	55							67	
FORMAT 4	SOCIAL SECURITY NUMBER - SPOUSE	68				76	77			
	FEDERAL FILING DISTRICT	78	N						79	
FORMAT 5	OCCUPATION - SPOUSE	12						22		
	STREET	23							52	
FORMAT 6	CITY (Post Office) STATE	53						72		
	ZIP CODE	73							77	
FORMAT 7	CITY, TOWN, VILLAGE, ETC.	12						26		
	COUNTY	27						41		
FORMAT 8								42	43	
	STATE	44								
FORMAT 9	TOWNSHIP	45								
	TAXPAYER CONTROL NUMBER	69								
FORMAT 10	JOINT - SPOUSE'S LAST NAME, IF DIFFERENT MARRIED FILING SEPARATELY - SPOUSE'S NAME HEAD OF HOUSEHOLD - QUAL PERSON'S NAME	55								
	CITY LIMITS - YES	77	H	78					79	
FORMAT 11										
	NO	80								
FORMAT 12	FILING STATUS	12	SEPARATE (Spouse Not Filing) = 0; SINGLE = 1; SEPARATE = 2; HEAD OF HOUSEHOLD = 3; JOINT = 4; WIDOWER = 5							
	TAXPAYER OVER 65	13								
FORMAT 13	TAXPAYER BLIND	14								
	SPOUSE	15								
FORMAT 14	SPOUSE OVER 65	16								
	SPOUSE BLIND	17								
FORMAT 15	YEAR OF BIRTH - TAXPAYER	19	20							
	JOINT - YEAR OF BIRTH - SPOUSE WIDOWER - YEAR OF DEATH - SPOUSE	21	22							
FORMAT 16	CHILDREN'S NAMES	23							45	
	CHILDREN'S NAMES (Continued)	46								
FORMAT 17										
	NUMBER OF CHILDREN	63	64							
FORMAT 18	OTHER DEPENDENTS	65	66							
	TEST FOR EARNED INCOME CREDIT	68								
FORMAT 19	ITEMIZED DEDUCTION ONLY	69								
	DO NOT PREPARE A TAX ORGANIZER	70	71							
FORMAT 20	PREPARE: STATE RESIDENT RETURN	72	73							
	STATE NONRESIDENT RETURN	74	75							
FORMAT 21	CITY RESIDENT RETURN	76	77							
	CITY NONRESIDENT RETURN	78	79							
FORMAT 22	FILING LETTER SALUTATION	12								

1. _____ 2. _____ 3. _____ TOTAL NUMBER OF INPUT PAGES _____

DIVIDENDS

NAME 1 9										DIV									
S.S. # 10 11										5a									
FORMAT 1										DIVIDENDS									
										<div style="display: flex; justify-content: space-between;"> 0 5 a </div>									
										<div style="display: flex; justify-content: space-between;"> H W J GROSS DIVIDENDS CAPITAL GAIN NON TAXABLE U = QUALIFIED PUBLIC UTILITY N = NON-QUALIFYING F/S </div>									
										<div style="display: flex; justify-content: space-between;"> 12 15 16 33 34 35 41 42 48 49 55 77 78 79 80 </div>									
2200																			
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Form i05a
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